Frequently Asked Questions
Qualified High Deductible Health Plan (QHDHP) and Health Savings Account (HSA)

State of Kansas Employees Health Plan

1. What is a Health Savings Account ("HSA")?

In conjunction with a Qualified High Deductible Health Plan (QHDHP), a Health Savings Account is a savings product that offers a different way for consumers to pay for their health care. HSAs enable you to pay for current health expenses and save for future qualified medical expenses, including as a retiree on a tax-free basis.

You must be covered by a QHDHP to be able to take advantage of an HSA. The premium for a QHDHP generally costs less a traditional health care plan, so the money that you save can be put into the Health Savings Account.

You own and you control the money in your HSA. Decisions on how to spend the money are made by you.

2. What Is a "Qualified High Deductible Health Plan" (QHDHP)?

Sometimes referred to as a "catastrophic" health insurance plan, a QHDHP usually has a lower premium and a higher deductible and out of pocket limits. Generally, the plan does not pay for the high dollar deductible, but will cover a portion of your costs after that. Your HSA is available to help you pay for the qualified expenses your health plan does not cover.

3. What is the deductible on a QHDHP and what are the maximum out of pocket expenses?

According to the Internal Revenue Code, in order to qualify to open an HSA, a QHDHP minimum deductible must be at least $1,000 (self-only coverage) or $2,000 (family coverage). The annual out-of-pocket (including deductibles and copays) cannot exceed $5,100 (self-only coverage) or $10,200 (family coverage). QHDHPs can have first dollar coverage (no deductible) for preventive care and apply higher out-of-pocket limits (and copays & coinsurance) for non-network services. **The state of Kansas QHDHP has a $1,500/$3,000 deductible if network providers are used and a $2,000/$4,000 deductible if non network providers are used.**

4. What are the requirements to enroll in the State's HSA?

To participate in the State's HSA, you must enroll in the Qualified High Deductible Health Plan offered by Coventry. This is the only HSA-qualified plan offered by the State. You cannot be covered by another plan that is not a QHDHP (e.g., a spouse's plan, TRICARE, VA benefits or enrolled in Medicare).

5. I'm on Medicare, can I have an HSA?

No, Medicare participants are not eligible for the HSA. Even if you have waived coverage in Medicare Part B while you continue to be employed, you are still enrolled in Medicare Part A. If you had an HSA before you enrolled in Medicare, you can keep it. However, you cannot continue to make contributions to an HSA after you enroll in Medicare.

6. I am a Veteran, can I have an HSA?

If you have received any health benefits from the Veterans Administration or one of their facilities, including prescription drugs, in the last three months, you are not eligible for an HSA.

7. I'm active-duty military and have Tricare coverage, can I have an HSA?

At this time, Tricare does not offer a QHDHP option so you are not eligible for an HSA.

8. My spouse has a Flexible Spending Account or Health Reimbursement Arrangement through their employer, can I have an HSA?

You cannot have an HSA if your spouse's FSA or HRA can pay for any of your medical expenses before your QHDHP deductible is met.

9. If each spouse has self-only QHDHP coverage (neither spouse has family coverage), how much can we contribute?

Each spouse is eligible to contribute to an HSA in their own name, up to the amount of the deductibles under their respective policies. However, each spouse's contribution cannot exceed the contribution limit for individuals.

10. Why does the State's QHDHP – HSA plan have higher deductibles than the federal government requires for such plans?

The State chose the higher amounts for the deductibles to strike a balance between premiums, deductibles and services and to provide a vehicle to save for future medical expenses. Since this is a new product and there is little track record by employers of this type arrangement, as we gain experience with it, these limits will be analyzed for adjustment.

11. Can I use my HSA to pay for medical expenses incurred before I set up my account?

No. You cannot be reimbursed for qualified medical expenses incurred before your account is established.

12. Who will be the "bookkeeper" for my HSA?

You. While the State will take a pretax payroll deduction for your contribution, and UMB Bank is the custodian, it is your responsibility to keep track of your deposits and expenditures and keep all of your receipts (necessary if the IRS audits you). It is also your responsibility to adhere to the regulations governing HSAs and payment of qualified medical expenses.

13. What happens if I spend more than I have in the account?

If you try to use your debit card for an expense that exceeds the available balance, your card will simply be declined at the time of purchase.

14. Is my premium for the Coventry health plan and my contribution to the State's HSA the same?

No. Your payroll deductions consist of two components. First is the premium for the health plan, just like the other premiums for the other health plans. You can choose to have this premium deducted from your pay pre-tax or post-tax, just like you can with any of the health plans.

Second, your HSA contribution is a separate, pre-tax contribution that you make to this type of savings account. It is money that you are setting aside for medical expenses. Most employees will have 24 semi-monthly contributions to the HSA. Contributions must be at least $25. Contributions cannot exceed the deductible. If you do not contribute the maximum in a payroll deduction, you can contribute more on an "after tax" basis by paying directly into your account.

15. Can I contribute more than the semi-monthly maximums in any month so long as I do not exceed the total annual deductible amounts? For example, could I contribute all of the deductible up front in one or two contributions only?

No. Federal rules prohibit contributing more than 1/12th of the HSA-qualified plan deductible for any month in which you are enrolled in an HSA-qualified plan. Eligibility for an HSA is a month-to-month verification, meaning an individual is eligible to contribute to the HSA only if on the first of every month, the individual is:

- Covered by the QHDHP with HSA plan.
- Not covered by another health plan (e.g., a spouse's plan)
- Ineligible to be claimed as a dependent on another's tax return;
- Not enrolled in Medicare; and
- Not covered by TRICARE

This also means that newly hired employees who elect to participate in the HSA cannot contribute the full $1500 or $3000 deductible amounts for whatever portion of the plan year remains.

16. Can I ever contribute more than the $1500 (employee only) or $3000 (employee plus dependents) annual deductible amounts for the QHDHP plan?

HSA enrollees age 55 or older may deposit additional "catch-up" contributions of $800 directly to UMB Bank (not payroll deducted).

17. What happens if I use the money in my HSA for expenses other than medical expenses?

If the money is used for other than qualified medical expenses, the expenditure will be taxed and, for individuals who are not disabled or over age 65, subject to a 10% tax penalty. It is your responsibility to report this information on your income taxes.

18. How do I know what is included as "qualified medical expenses?"

HSA funds can pay for any "qualified medical expense," even if the expense is not covered by the QHDHP-HSA. Unfortunately, we cannot provide a definitive list of "qualified medical expenses." A partial list is provided in IRS publication 502 (available at www.irs.gov). There have been many nuances of what constitutes "medical care" for purposes of section 213(d) of the Internal Revenue Code. A determination of whether an expense is "medical care" is based on all the relevant facts and circumstances. To be an expense for medical care, the expense has to be primarily for the prevention or alleviation of a physical or mental defect or illness. The determination often rests on the word "primarily."

19. Who decides whether the money I'm spending from my HSA is for "qualified medical expense?"

You are responsible for that decision, and therefore should familiarize yourself with what qualified medical expenses are (at least as partially defined in IRS publication 502). Also keep your receipts in case you need to explain your expenditures or decisions during an audit.

20. Can I have an HSA and the state's health care flexible spending account (FSA) at the same time?

No. Employees cannot participate in both the HSA and the State's KanElect Health Care Flexible Spending Account (HCFSA).

For members who enroll in the QHDHP for Plan Year 2007 and who were enrolled in the KHCFSA in Plan Year 2006 **will not be eligible** to contribute to the HSA until March 1, 2007. Because regulations regarding the HSA preclude contributions while covered by the HCFSA, no contributions can be made during the grace period by either the employee or the employer.

21. Can I direct the investments for my HSA?

You will decide what types of investments to make from a list of 360 funds from 7 highly regarded fund families with the money in the account, but not until the balance exceeds $2,000. However, once a balance of $1,000 is achieved you will have the option of selecting a money market sweep where monies over a "peg" balance of $1,000 will be swept into a money market of choice. Until that point, the interest rate that is being applied to the deposited money is determined by a three tiered program where the bottom tier pays .5% and the second and third tiers are benchmarked against the 91-day Treasury bill. Unlike the State's 457 Deferred Compensation Plan which offers a wide variety of professionally managed investment options, the HSA is primarily a tax-savings tool and only minimally an investment vehicle.

22. Do unused funds in an HSA roll over year after year?

Yes. The unused balance in an HSA automatically rolls over year after year.

23. What happens to the money in my HSA if I lose my HSA-qualified health plan coverage? Can I still use the money that is already in the HSA for medical expenses tax-free?

Once funds are deposited into the HSA, the account can be used to pay for qualified medical expenses tax-free, even if you no longer have HSA-qualified health plan coverage. There is no time limit on using the funds and they roll over automatically each year until used. However, you are NOT allowed to contribute to your HSA if you are not covered by an HSA-qualified health plan. If you regain such coverage at a later date, you may begin making contributions to your HSA again.

24. How can I monitor my account?

You will be able to monitor your account online through UMB Bank's website. The exact website and security procedures will be provided to you via the welcome kit you will receive.

25. Are dental and vision care qualified expenses under an HSA?

Yes, as long as these are qualified medical expenses. Cosmetic procedures (a common exclusion in health and dental plans) are not qualified medical expenses.

26. Can I use the money in my HSA to pay for medical care for a family member? What if I am the only person in my family covered by the HSA-qualified health plan and the rest of my family is covered by another type of health plan?

You may withdraw funds to pay for the qualified medical expenses of yourself, your spouse or a dependent without tax penalty. It is not necessary for all members of your family to be covered by the HSA-qualified health plan.

27. How do I use my HSA to pay my physician when I am at the physician's office?

If you are still covered by your HSA-qualified health plan and you have not met your policy deductible, your physician may ask you to pay for the services provided before you leave the office. If the physician is a network provider, there will probably be a discounted price for services that the physician and Coventry have agreed upon. The HSA custodian has provided you with a debit card so you can pay your physician directly from the account. If your physician does not ask for payment at the time of service, then they will probably submit a claim to Coventry, and they will apply any discounts based on their contract with the physician. You should then receive an "Explanation of Benefits" (EOB) from Coventry stating how much the negotiated payment amount is, and that you are responsible for 100% of this negotiated amount. If you have not already made payment to the physician for the services provided, the physician may then send you a bill for payment.

28. Can I use my HSA to pay for medical service provided in other countries?

Yes, if the expenses are qualified medical expenses.

29. Can I pay my health insurance premiums with an HSA?

In most cases, no you can't. You can only use your HSA to pay health insurance premiums if you are collecting federal or state unemployment benefits, or you have COBRA continuation coverage through a former employer.

30. Can I purchase long-term care insurance with money from my HSA?

Yes, if you have tax-qualified long-term care insurance. However, the amount considered a qualified medical expense depends on your age. See IRS Publication 502 for the amounts deductible by age.

31. What happens to the money in an HSA after I turn age 65?

You can continue to use your account tax-free for out-of-pocket health expenses. When you enroll in Medicare, you can use your account to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. The one expense you cannot use your account for is to purchase a Medicare **supplemental insurance, or "Medigap," policy**, such as Kansas Senior Plan C.

Once you turn 65, you can also use your account to pay for things other than medical expenses. If used for other expenses, the amount withdrawn will be taxable as income but will not be subject to any other penalties. (Individuals under age 65 who use their accounts for non-medical expenses must pay income tax and a 10% penalty on the amount withdrawn.)

32. Can I claim both the “above-the-line” deduction for an HSA and the itemized deduction for medical expenses?

You may be able to claim the medical expense deduction even if you contribute to an HSA. However, you cannot include any contribution to the HSA or any distribution from the HSA, including distributions taken for non-medical expenses, in the calculation for claiming the itemized deduction for medical expenses. Check with your tax preparer for assistance on requirements.

33. Can I borrow against the money in my HSA?

No. You may not borrow against it or pledge the funds in it. For more information on prohibited activities, see Section 4975 of the Internal Revenue Code.

34. Can I roll the money in a Health Savings Account over into an IRA?

You cannot roll the HSA funds over into an IRA. They will stay in the HSA or be rolled into another HSA.

34. Does the State contribute toward my HSA?

Beginning in January 2007, the state will contribute up to $75 per month for those enrolled in single coverage and an additional $37.50 per month for those enrolled in family coverage. This total $900/year and $450/year for those enrolled for the entire 12 month period.